



MEMORANDUM - OFFICE OF RECOVERY & REINVESTMENT

To: JoAnna Richard, Deputy Secretary – Wisconsin Dept. of Workforce Development
Mark Thomas, Deputy Secretary – Wisconsin Dept. of Health Services

From: Chris Patton, Director

Re: Financial Review – Fox Valley Workforce Development Board

Date: June 7, 2010

The Wisconsin Office of Recovery and Reinvestment (ORR) contracted with Jefferson Wells to conduct on-site reviews of non-profit entities that received Recovery Act funding from more than one federal/state program. In summary, the review was primarily financial in scope and encompassed risks and mitigating control activities related to the Entity Level Control Environment, Financial Reporting, Purchasing and Disbursements, Banking/Treasury, HR/Payroll, and Fixed Assets processes, and comprised of the following activities:

- Review of policies, procedures, and documented controls.
- Review of external auditor reports and evidence for remediation of findings.
- Inquiry of management to acquire a general understanding of entity relationships, transaction flows, and monitoring controls.
- Observation of transaction flows and control activities via process walkthroughs.
- Review of system access reports for adequate segregation of duties.
- Review for evidence of operational effectiveness of key controls, including account reconciliations, transaction authorizations, and appropriate disposition of assets.
- Review of transaction detail on a sample basis for evidence that funds have been appropriately accounted for and/or disbursed.

The reviewers met with both management and financial staff to review the activities and controls associated with Recovery Act grants or the administrative financial controls in place prior to receipt of the grant funding. The common grants that have been issued to Fox Valley Workforce Development Board by various State of Wisconsin agencies include the following:

PROGRAM	STATE/ FEDERAL AGENCY	AWARD AMOUNT
WIA Adult, Dislocated, and Youth Workers	DWD/DOL	\$2,291,777
SCSEP American Recovery Act	DHS/DOL	\$70,330

Additionally, some entities have been awarded funds directly from a federal agency and the controls and procedures associated with these awards have also been reviewed at a high level.

The on-site review of Fox Valley Workforce Development Board was performed from February 25th through February 26th, 2010. The review was primarily financial in scope, and focused on the agency's capabilities to mitigate the risk of fraud, waste, and abuse through internal controls including but not limited to management oversight, segregation of duties, and restricted access.

As stated in more detail in the attachment from Jefferson Wells, the review focused on policies and procedures, past audit reports, management and board engagement, transaction flows, system access, operational effectiveness of key controls and transaction details.

Upon completion of the review and examination of the supporting documentation, no instances of fraud, waste or abuse were noted. However, the following observations were noted from the reviewers along with recommendations suggested by ORR that may assist in mitigating any risk associated with the observations.

The agency is currently transitioning from sharing personnel with a subrecipient agency (Workforce Economics) to more of an independent agency with its own employees. The agency has also had difficulty maintaining a CFO, having turned over this position twice in the past year. This is thought to be a contributing factor to some of the issues noted below.

Based upon fieldwork performed from February 25 – February 26, 2010, of the Fox Valley Workforce Development Board (FVWDB or the agency), significant internal control issues were identified. The specific findings that may warrant additional investigation by management have been categorized into the following groupings: Conflict of Interest, Whistleblower Policy, Background Checks, Segregation of Duties, Management Oversight, and Vendor Master File.

Conflict of Interest Policy:

Observation: The agency has documented personnel policies that address code of conduct and conflict of interest. All employees and Board members are required to sign the conflict of interest statement annually. During the review of a sample of conflict of interest statements, the Executive Director reported that she functions as the administrator for both Workforce Economics (a sub-recipient of funds from FVWDB) and FVWDB. As the administrator for both agencies, the Executive Director has full access to the bank accounts as a signor on bank accounts for both entities and has full access to the accounting system (and all modules). However, there was no indication of any improprieties. See also Segregation of Duties section below.

Recommendation: The Executive Director is a member of the Board of Directors for FVWDB and the administrator for both FVWDB and Workforce Economics. This conflict of interest is properly disclosed and known. Therefore, greater board oversight and review of bank reconciliations, account reconciliations, and cash activities is required to assure compliance with FVWDB policies and procedures. A second individual with a strong financial and accounting background should be utilized to provide additional oversight of accounting and financial activities.

Whistleblower Policy:

Observation: Though a formalized Whistleblower program is documented in the employee handbook, the program does not address anonymity for the whistleblower, which increases the likelihood that potentially damaging incidents (financial or reputational) will not be reported timely or at all.

Recommendation: The Recovery Act has very specific whistleblower provisions. To better understand the applicability of these provisions, attached is the link to the United States Office of Management and Budget's website <http://www.recovery.gov/Contact/ReportFraud/Pages/WhistleBlowerInformation.aspx>. Best practices would include communication of the agency's Whistleblower Policy to all employees to facilitate the reporting of any improprieties occurring within the organization. Best practices also include creating methods of allowing anonymous reporting of fraud or abuse.

Background Checks:

Observation: Personnel policies allow for employee background checks. However, the agency only utilizes the State of Wisconsin Circuit Court Access Consolidated Court Automation Programs (CCAP) website.

Recommendation: Best practices would include performing broad background checks on employees before employment or transitioning into positions that have cash handling duties, senior management responsibilities, or program requirements (e.g. interaction with children, access to recipient homes, etc.). In addition, the agency should not limit its background checks to the Circuit Court Access Consolidated Court Automation Programs (CCAP) website, which only reports cases tried in the State of Wisconsin and excludes convictions under federal law and other state laws.

Segregation of Duties:

Observation: Currently, there are five employees who have full access to the accounting system. The accounting system does not have the capability to segregate user access; if someone has access to the system, they can perform all functions. This system limitation creates issues with segregation of duties at all levels in all modules. Currently, the Executive Director, who retains full access to the system, is also the primary reviewer of accounting transactions and is a signor on the bank account.

Recommendation: The Board of Directors and management should consider establishing an internal control policy that addresses system access related to executing or reviewing certain financial transactions. In most cases it is optimal that a minimum number of individuals have the ability to perform certain tasks, while management, supervisors or other individuals that are not involved in the process have the ability to review the transactions that were performed. Best practices would include creating documented, independent reviews, timely reconciliations, and sign offs by preparers and reviewers.

Management Oversight:

Observation: The lack of a consistent and documented management review process increases the risk that errors and/or fraudulent activities may not be detected on a timely basis. Noted deficiencies include:

1. Personnel – Since the CFO left the agency in January 2010, the agency had not hired a new CFO (as of the time of review) with adequate experience to perform the necessary fiscal operations of the agency. (Since hired)
2. Accounting – The lack of an independent review of all financial transactions against supporting documentation poses the risk of inaccurate and/or invalid accounting transactions being processed. The lack of independent review was observed as detailed below:
 - Based on a review of the journal entry binder, there is no evidence to demonstrate a comprehensive independent review of all journal entries. Furthermore, the entries in the binder lacked supporting documentation.
 - There is no independent review of the monthly state ARRA program reporting prepared by the Finance Manager. The lack of management review can and has resulted in reporting errors. During fieldwork, Jefferson Wells brought a questionable entry on a CARS report to the attention of agency management, who agreed that the report was in error (by approximately \$8,000), and needed correction.
 - Jefferson Wells also noted that a material weakness was reported in the 2008 audit report related to the agency's inability to produce complete, materially correct financial statements.
 - There was one noted instance in which meals, taxi, and tips were miscoded to mileage. The amount was about \$60.

3. Accounts Payable - Lack of independent review and proper supporting documentation in the Accounts Payable process poses the risk of unauthorized payment of invalid or fraudulent invoices. Management review becomes especially necessary where proper segregation of duties does not exist (see also *Segregation of Duties* section above).

- A review of a judgmental sample of accounts payable disbursements identified that while all contained approved check requests, some did not have the proper supporting documentation such as vendor invoices or agency required purchase requisitions.
- Board Member signoff of the Executive Director's expense report and FVWDB check register does not occur in a timely fashion. During fieldwork, it was noted that there were still unapproved expense reports and check registers from 2009. Note: The agency had the Board sign off on the transactions before the completion of audit fieldwork.
- Cleared checks are not independently reviewed to identify inappropriate or fraudulent checks.
- The system does not produce an AP aging report. Thus, management does not have a systematic way to monitor payables for compliance with the prompt payment statute.
- The agency does not have adequate controls in place to prevent duplicate payments. During fieldwork, a duplicate payment of \$2,500 was identified. Upon notification by Jefferson Wells staff, the duplicate payment was identified and returned by the vendor. However, since the agency did not detect the duplicate payment, this will be noted as an issue.

4. Banking/Treasury –

- Bank reconciliations are not completed in a timely fashion. During fieldwork, the agency was unable to produce completed bank reconciliations for November and December 2009, and January 2010, as the agency was in the process of completing those reconciliations.
- During fieldwork, it was noted that the previous Board President was still a signor on the bank account. Per review of the Board minutes in November 2009, the Board President listed as a signor on the account is no longer a Board member.
- The previous CFO resigned in January 2010 and still has access to the agency's bank accounts.
- The Executive Director has the ability to transfer funds from the Workforce Economics bank account to FVWDB's bank accounts and vice versa. Prior to February 2010, no formal documentation was required to transfer money between entities. Further, the Executive Director has access to both entities' bank accounts and general ledgers. To compensate for this arrangement, the Board reviews the check register; however, transfers made via ACH would not show up on the check register. On a go forward basis, the Workforce

Economics entity will be formally requesting reimbursement from FVWDB via a standard form; however, this will not effectively compensate for the segregation of duties risk posed by the Executive Director having access to both entities' bank accounts and accounting systems.

5. Payroll – Lack of independent review of payroll changes and time entry into the system poses the risk of inaccuracies or fraud. While financial reviews may detect any material improprieties, there is still an opportunity for unauthorized payroll changes and time entry to go undetected.
 - The agency does not print out a report summarizing changes to the payroll system (e.g. new hires, changes to pay rates) and compare the changes to supporting documentation.
 - The agency has a policy in which the timecard of the Executive Director is reviewed by a Board member. During fieldwork, the Executive Director's timecard for the last pay period in December 2009 was sampled, and it was noted that it had yet to be signed off.

Recommendation: It appeared the agency was lacking an individual with the necessary skills to improve management oversight, strengthen the segregation of duties and increase the agency's depth in financial and accounting administration. The agency has subsequently hired a CFO which should mitigate these concerns. Discussions with the accounting software provider should be held to determine if users' access can be limited

Best practices also include strong basic management oversight and review processes to ensure accurate financial reporting and oversight. The Board of Directors and senior management should be actively engaged in reviewing and approving expenditure coding, recording of accounting transactions, account reconciliations, accounts payable transactions, cash disbursements, and other fiscal matters. Management may want to review the policies and procedures related to management oversight issues to determine why the noted diversions occurred.

As a state agency with the responsibility for ensuring that sub-recipients comply with complex requirements associated with the granting of Recovery Act funds, this information is being forwarded to your attention so that you attend to the issues that may impact your specific program. ORR expects that each agency will take the appropriate steps to mitigate fraud, waste and abuse as it relates to Recovery Act funding. For your convenience, I have enclosed a copy of the Field Review Program Worksheet, which details the scope and results of the review. A copy of this memorandum is also being provided as a courtesy to Fox Valley Workforce Development Board.

As a result of this review, if you require sub-recipients to demonstrate any change of policy or procedure, please forward a copy of any correspondence to the attention of the Recovery Office.

If you have any questions, you can contact Dan Subach at (608) 266-7602 or Art Stauffacher at (608) 267-3672. Thank you for your cooperation in assisting us in assuring the public of the accountability and transparency of Recovery Act funds.

cc: Cheryl Welch, Fox Valley Workforce Development Board